



WEEKLY OUTLOOK



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WILL WORLD WHEAT PRODUCTION REBOUND?

With much of the market focus on corn and soybean planting intentions in the U.S., not much attention has been given to the U.S. and world wheat situation. In the big picture, the question is whether the short crop, tight wheat supply situation of the current marketing year will give way to a more abundant U.S. and world supply scenario.

In January, the USDA reported that U.S. producers seeded 44.089 million acres of winter wheat for harvest in 2007. That estimate is 3.514 million above the area seeded for harvest in 2006. Area seeded to soft red winter wheat was estimated at 8.33 million acres, about 13 percent more than seeded a year earlier. The increase was stimulated by relatively high wheat prices, even though supplies of soft red winter wheat remained abundant, and generally favorable seeding conditions. The exceptions to favorable seeding conditions were in Indiana, Kentucky, and Ohio where wet weather delayed the fall harvest and prevented wheat seeding. The largest increases in soft red winter wheat acreage were in the Delta states and southeastern states.

Area seeded to hard red winter wheat for harvest in 2007 was estimated at 31.9 million acres, up 9 percent from area seeded the previous year. Increases were registered in all major producing states as high prices encouraged seedings even in areas of moisture deficits. Acreage increases were especially large in the Dakotas, following declines the previous year.

There has been some speculation that winter wheat producers might choose to replant some acreage to spring planted row crops, particularly corn, due to high prices of these other commodities. However, wheat prices remain relatively high and the wheat crop is thought to be in generally good condition. Current weather patterns maintain the potential for relatively high wheat yields, making replacement with spring planted crops a very risky decision.

The USDA's March 30 *Prospective Plantings* report will reveal producers intentions for seeding spring wheat. Spring wheat, including durum, is seeded primarily in the Dakotas, Montana, and Minnesota; with lesser amounts in Idaho and Washington. The general

expectation is that producers will reveal intentions to reduce seedings of spring wheat in favor of corn and perhaps oilseeds. The decline is anticipated even though spring wheat prices remain relatively high because of the increase in winter wheat seedings and the high prices of other crops.

The 2006-07 world wheat crop is estimated at 21.79 billion bushels, 4.4 percent smaller than the crop of 2005-06 and 5.6 percent smaller than the record harvest of 2004-05. Large year-over-year production declines were registered in the U.S., Russia, Ukraine, Europe, and Australia. The largest decline occurred in Australia, where the crop totaled 386 million bushels, only 42 percent of the size of the previous harvest. As a result of the small world harvest, world consumption, trade, and ending stocks have declined significantly this year. The USDA projects the 2006-07 U.S. average farm price for all classes of wheat at \$4.25 per bushel, the third highest behind the \$4.55 of 1995-96 and \$4.30 of 1996-97.

History suggests that periods of reduced supply and high prices are followed by a fairly significant world production response. The high prices of 1974-75, 1980-81, 1988-89, and 1995-96 were followed by relatively large increases in world wheat acreage. Acreage tended to stay large in the second year following high prices and then declined as world supplies became more abundant. It should be expected, then, that world wheat acreage will increase this year, but production will be dependent on weather and average yields. Much of the focus will be on Australia to see if precipitation returns to more normal levels following the recent drought conditions.

Wheat prices have been quite volatile over the past year as the short crops unfolded. July 2007 wheat futures at Chicago moved above \$4.00 in February 2006 and broke above \$5.00 in November 2006. That contract reached a high near \$5.18 in late February 2007, but is currently trading near \$4.70. Price volatility will likely continue due to the uncertainty about U.S. and world production of wheat and other crops. However, the longer term price trend may be lower as current high prices will likely lead to large crops and more abundant world stocks. If so, pricing opportunities may be best early in the 2007-08 marketing year.

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